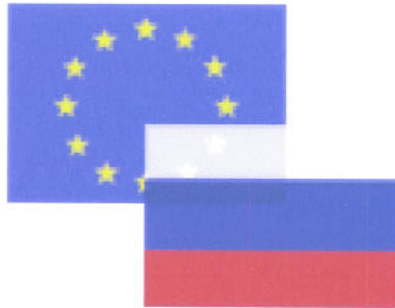


EU-Russia Energy Dialogue

Eighth Progress Report



Presented by
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and

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Brussels/ Moscow October 2007

The European Union and Russia are important strategic partners in the continued mutually beneficial cooperation in the energy sector. The EU is and will remain a significant energy consumer and importer. Russia is and will remain an important energy supplier and exporter to the European Union. Russia currently accounts for over 25% of oil and gas deliveries to the EU countries.

The EU-Russia strategic partnership in the energy sector should provide certainty, security and predictability in the long run in an open market environment. This will create favourable conditions for the necessary long-term mutual investments in existing and new production installations and transport infrastructures.

Therefore, the EU and Russia are objectively interested in strengthening the mutually beneficial cooperation in the energy sector, which is the aim of the EU-Russia Energy Dialogue.

The EU and its Member States share with Russia a common objective to promote trust and transparency in the EU-Russia energy relationship, including through exchange of information on current and planned legislative, regulatory and energy policy developments. A key objective of the Road Map for the Common Economic Space, adopted at the EU-Russia Summit of 10 May 2005, is the intensification of cooperation in the energy area, including issues related to the sustainability and continued reliability of the production, distribution, transportation and efficient use of energy. The Parties consider the EU-Russia Dialogue as the main instrument to achieve these objectives. The Parties acknowledge the importance of bilateral energy cooperation between the EU Member States and Russia and of relations with the European Commission.

The Parties decided to restructure the Thematic Groups of the Energy Dialogue. Following the second meeting of the EU-Russia Permanent Partnership Council (PPC) on Energy in Moscow in December 2006, the Parties have agreed to set up a new Thematic Group to address the issues of Energy Strategies, Forecasts and Scenarios. The Parties have also decided to merge the existing Thematic Groups on Trade, Investments and Infrastructure into a single Thematic Group to address the key issues of Energy Market Developments. The Parties approved to prolong the mandate of the existing Thematic Group on Energy Efficiency.

This Progress Report reflects the results of the EU-Russia Energy Dialogue achieved between November 2006 and October 2007 and defines avenues for further joint work to deepen and develop the Energy Dialogue.

1. ENERGY STRATEGIES AND FORECASTS

The Parties note that ensuring long-term security and safety of energy demand and supplies is becoming the priority issue in the framework of the EU-Russia Energy Dialogue. Progress on this issue requires an improvement in the relevant information exchange and a greater coordination of energy strategies of the Energy Dialogue parties.

In this respect Parties welcome the first meeting of the Thematic Group on Strategies, Forecasts and Scenarios held in Moscow on 26 September 2007 during which:

- Russia presented the current state of play in energy and its decision to prepare an updated version of Russia's Energy Strategy until 2030 that foresees, inter alia, further growth of hydrocarbon exports to the EU and the strengthening of renewable energy and energy efficiency measures in Russia;
- The EU presented information on the Action Plan on Energy policy for Europe, approved by the Heads of States and Governments at the European Council on 9 March 2007, underlining the importance of secure energy supplies for the EU and environmental sustainability, including combating climate change.

Both Parties note the importance of the Thematic Group's work in strengthening cooperation between the EU and Russia as stable and reliable energy partners. The Thematic Group's work should focus on the medium and long term. A work programme should be developed by the Group and presented for approval by the Coordinators of the Energy Dialogue.

The Parties agreed to establish a Subgroup on Energy Economic Issues of the Thematic Group to address the following issues:

- energy production and consumption forecasts in the EU and Russia in the long, medium and short term;
- energy strategies priorities in the EU and Russia, taking into account security and safety of energy sector development under the conditions of different scenarios for both parties;
- opportunities and potential results of the EU-Russia collaboration in coordination and realisation of energy strategies;
- tasks, structure and phases of establishing the bilateral energy data exchange and monitoring systems.

Members of the Group and experts from the EU and Russia will be invited to participate in preparation of a draft joint interim report to be presented for the EU-Russia Spring 2008 Summit.

2. DEVELOPMENT OF ENERGY MARKETS IN RUSSIA AND THE EU

The Parties note that developments in the energy markets in the EU and Russia, including trade and investment climate in the EU Member States, have to contribute toward increasing the level of security and predictability of energy markets regarding supply, demand and transit. Further mutual activities are necessary to improve the investment climate and trade in energy products. Both sides welcome the mutual willingness to address barriers to investment in order to develop an attractive, stable and predictable investment climate both in Russia and the EU that foresees, among others, an active role for foreign investors.

In that context, the Parties value the first meeting of the Thematic Group on Market Developments that took place in Moscow on 18 September 2007, where presentations were made on the status and potential developments of energy markets, including

regulatory aspects, on electricity interconnections and trade in nuclear materials, on key issues of the current investment policy, on the new internal market proposed rules for electricity and gas in the EU, and on recent legislative developments in energy sector in the EU and Russia. The terms of reference have been signed and timeline was established to develop the joint work plan. The agreement was reached to form subgroups, in particular the one on investments, which has already started its work.

The Russian participants of the Thematic Group confirmed the importance of strengthening cooperation in the area of safety and security of the nuclear energy sector, in particular by developing stable and predictable conditions for long-term trade in nuclear materials, and explained the appropriateness of preparing a draft agreement on trade in nuclear materials.

The Thematic Group agreed to timely and regularly exchange information on the following issues:

- the EU Party intends to reply on the status of trade on nuclear materials;
- the Russian Party intends to provide information on legislative developments in the energy field.

The Parties highly value cooperation on energy infrastructure projects of common interest. The Parties positively view the results of cooperation in energy markets in developing projects of common interest for the EU and Russia

- the progress made in July 2007 on the development of the Shtokman gas field project, which is an important step in strengthening cooperation between the EU and Russia;
- an intergovernmental cooperation agreement on construction and operation of the Burgas-Alexandroupolis oil pipeline, which is a new supply route and which also provides a solution to the problem of overcrowded straits in the Black Sea, was signed and came into force in March 2007;
- work to realize the Nord Stream project, which is continuing successfully. The Parties stress the importance of the environmental impact assessment study, which is underway;
- the preliminary results of the feasibility study on the synchronous interconnection of the power systems of the CIS and Baltic States (IPS/UPS) to UCTE that have not shown any technical barriers to their potential synchronous work. In order to complete the feasibility study by Summer 2008, the Parties will take necessary steps and will agree on the timeline for completing the study.
- work on integrating electricity markets of the EU and CIS, with the development of necessary elements and principles of trans-border trade in the region that encompasses Belarus, Moldova, Russia, Ukraine on the CIS side and Latvia, Lithuania, Estonia, and Finland on the EU side being the first step in this context.

The EU Party confirms the importance of its TEN-Energy infrastructure projects to diversify its energy supply routes and the priority that has to be given to maritime safety for the transportation of oil and gas.

The Coordinators ask the Thematic Group to update the list of projects of common interest for the inclusion in the next Progress Report.

The Parties share the view that technologies and human capital play a major role in the development of energy markets. They stress the need for continued steps in this direction. Technology will continue to be vital to ensure the necessary levels of production. Developing human capital, investing in education and improvement of professional skills are necessary in a modern time energy industry that requires highly professional employees, possessing strong theory knowledge as well as practical skills.

The Parties recommend that the Thematic Group on Market Developments addresses this issue and suggest concrete cooperation projects.

The Parties consider it necessary to evaluate further the possible barriers to energy trade between the EU and Russia, existing or likely to appear in the future, whether they are of a political, legal, economic, financial or technical nature and to promote their removal. Such cooperation will be based on the analysis of contractual instruments available in energy trade and on the examination of the energy infrastructure policies in the EU and Russia that highlights the optimal use of the existing infrastructure, the need for upgrades, new projects and transportation routes.

The Parties note the need to evaluate possible barriers to energy investment between the EU and Russia, existing or likely to appear in the future, whether they are of a political, legal, economic, financial or technical nature; to identify strategic investment projects and to discuss different investment options and their influence on the long term impacts.

The Parties confirm the interest in evaluating possible barriers to the development of efficient energy markets in the EU and Russia, based on the principles of mutual benefit, balance of interests and non-discrimination.

3. ENERGY EFFICIENCY

Within the EU – Russia Energy Dialogue increasing energy efficiency is identified as an important area of cooperation of common interest. In this regard, the Parties underline the progress achieved in implementing the joint EU – Russia Energy Efficiency Initiative and in particular the Action Plan approved at the Permanent Partnership Council on Energy in December 2006. Since 2006, common EU and Russia projects have been implemented in areas such as legislation and regulation in the fields of energy efficiency, including the regional level, and wide use of renewable energy sources.

The Parties agree that this Group will use the results of prior work, including the Action Plan identifying joint actions to foster energy efficiency, as well as the recommendations of activities undertaken within the framework of the Plan:

- the thematic seminar on ESCO's and gas flaring (Russia, October 2006);

- the International Conference of Energy Agencies (Kazan, December 2006);
and the recommendations stemming from activities carried out by the EU Member States and Russia.

The Parties approve the results of the meeting of the Joint Thematic Group on Energy Efficiency held on 27 September 2007, which analysed the state of play and discussed the next steps on improving energy efficiency in the EU and Russia.

The representatives of the EU presented the main principles of the project for setting up a Platform for International Cooperation on Energy Efficiency. The Representatives of the European Bank for Reconstruction and Development (EBRD) presented the Sustainable Energy Initiative of the EBRD in Russia, particularly in the regions of Russia.

The Parties underline the importance of exchange of information and experience on energy efficiency and on reducing greenhouse gas emissions in the energy sector.

Two seminars on legislation on energy efficiency and renewable energies in Russia and the EU and on the implementation of investment projects, including capacity building, in these fields at the regional level will be organised by the end of 2007. The modalities of implementing a jointly financed project to reduce greenhouse gas emissions in Russian regions through improvement of energy efficiency will be prepared.

The Parties agreed in the medium term to continue work on the implementation of activities of the joint EU – Russia Energy Efficiency Initiative, which includes projects on:

- approximation of legislation and regulations in the field of energy efficiency, heat supply and renewable energies,
- cooperation at the regional level, strengthening partnership programs between local and regional energy efficiency centres in the EU and Russia,
- co-operation on attracting investments into energy efficiency projects,
- promotion of the use of the Kyoto Protocol mechanisms for improvement of energy efficiency,
- providing support to exchange information and development of renewable energy and energy efficiency pilot projects,
- energetic use of associated gas.

4. THE EARLY WARNING MECHANISM

Based on the agreement in principle by leaders at the EU-Russia Summit in Samara in May 2007, the Parties pursue the establishment of an Early Warning Mechanism on supply and demand of gas and oil. They intend to use this mechanism to identify potential supply and demand problems and risks well in advance and allow for preparedness of Russia and the EU to minimise the impact of potential disruptions.

The Early Warning Mechanism is based on procedures for the Parties to receive, exchange and agree on the analytical information regarding potential problems in this area and ways of resolving them, with the relevant results to be used, among others, for the preparation of Progress Reports within the framework of the EU-Russia Energy Dialogue, in which the industry on both sides actively participates.

The Early Warning Mechanism utilises the existing modalities of cooperation, in the framework of:

- work of the Thematic Group on Market Developments and the Thematic Group on Energy Strategies, Forecasts and Scenarios;
- regular conferences, as well as meetings and consultations of the coordinators of the EU-Russia Energy Dialogue.

The Parties indicate that the terms of reference of the mentioned Thematic Groups have to be supplemented in order to develop the format, contents and organization of cooperation activities to analyse potential hydrocarbon supply problems and to prepare suggestions for the Progress Reports.

Additionally, in relevant cases, operational contact by the designated officials on both sides, who have access to the relevant energy industry information, will be ensured in the framework of the Early Warning Mechanism. The Parties commit to inform each other as soon as significant supply or demand difficulties occur.

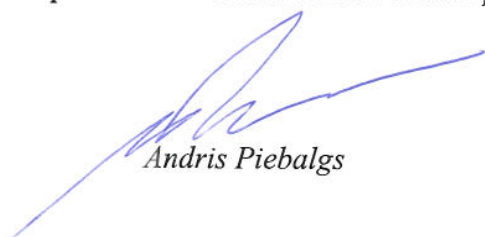
CONCLUSIONS

The Parties note substantial and fruitful work of the newly created Thematic groups on Energy Strategies, Forecasts and Scenarios, on Market Developments, and on Energy Efficiency, that has contributed significantly to the EU-Russia energy cooperation.

The Parties note considerable progress in the advancement of infrastructure projects and intend to continue work to update the list of projects of common interest for the inclusion in the next Progress Report.

In order to continue determining ways to supplement the energy policies of the EU and Russia in the long-term as well as to improve energy security, the Parties agree to the appropriateness of establishing an effective Early Warning Mechanism, aimed at timely identification of potential supply (as well as transit) and demand problems and risks in order to minimise the impact of possible interruptions.

The Parties agreed to hold meetings of the Thematic Group at least twice a year and to report on the meetings to the coordinators of the EU-Russia Energy Dialogue and the Permanent Partnership Council (PPC). The final reports of the Groups have to be presented in October 2008 for the preparation of the 9th Progress Report.



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